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SUBJECT: MUBARAK'S VISIT TO RUSSIA AND CHINA: DIVERSIFYING RELATIONS, ASSESSING OPPORTUNITIES

REF: CAIRO 5792

Classified By: Deputy Chief of Mission Stuart Jones for reasons 1.4(b) and (d).

Summary

¶1. (C) With media attention focused on Mubarak's upcoming visit to Russia (Nov 1-4) and China (Nov 6-9), speculation is rife as to why he is going, and what message he is sending. While Egypt has solid reasons for expanding cooperation with both countries; the fact that Mubarak is throwing his weight into the effort is further evidence of Egypt's desire to "diversify" its global alliances. Mubarak would like Egyptians and the West alike to "read" his visit as a reminder that Egypt has numerous potential partners. End Summary.

Diversification of Ties = Hedging Mubarak's Bets

¶2. (C) As Mubarak prepares for his ninth visit to China and his sixth trip to Russia since taking office, expectations are high that the visits will significantly enhance Egypt's bilateral cooperation with both nations. Mubarak's personal involvement means that Egypt is serious about strengthening ties, and the feelings appear to be mutual. Putin's April 2005 visit to Cairo was his first ever to an Arab nation, and Chinese Premier Wen Jiabao visited in June 2006. The high-level support for enhanced cooperation with Russia and China is consistent with Minister of Trade Rachid's mid-September remark to the International Herald Tribune that Egypt is undergoing a "significant shift in trends" from traditional relations with the U.S. and Europe to a "diversification" of international alliances.

¶3. (C) Egypt's interest in enhancing trade and attracting foreign investment, expanding energy sector cooperation and promoting tourism all argue for a deepening of relations with both Russia and China. Like Egypt's trade with China (reftel), Egyptian-Russian trade is overwhelmingly one-way, with Russian exports accounting for 92 percent of the USD 1.1 billion in bilateral commodities trade in 2005, making Egypt Russia's 33rd largest market. While rumors of free trade negotiations between Egypt and Russia have circulated since mid-2005, Trade Ministry contacts discounted the likelihood of an agreement. Still, the prospect of good deals for less expensive Russian or Chinese goods, including big ticket

items such as Chinese locomotives to bolster Egypt's accident prone rail system, and an interest in attracting foreign direct investment in the manufacturing sector is high on Cairo's agenda.

¶4. (C) Egypt's recent announcement that it will pursue civilian nuclear energy provides an opportunity for cooperation with both Russia and China. According to press reports, Egypt has discussed the possibility of a Russian role in construction of the Al-Dabaa plant, and Mubarak's Moscow discussions will include technical cooperation on nuclear power. Mubarak is also expected to secure Russian assistance to develop Egypt's natural gas production and exports during his upcoming trip. Egypt's Petroleum Minister just signed three oil and gas cooperation agreements with China. Under one of these agreements, beginning in 2007. Egypt and China will co-produce oil rigs, which are in short supply, in Egypt. China's expertise in the nuclear field likely prompted Egypt to name China as one of six partners (including the U.S.) with which it will cooperate in its quest for civilian nuclear power.

¶5. (C) Closer ties with Russia and China will also benefit the tourism sector, which is Egypt's largest foreign currency earner, representing 18 percent of total foreign revenues. Egypt's tourism minister Garranah reported that the number of Chinese visitors to Egypt had increased by 39 percent during the first nine months of 2006 as compared to 2005. The language department of the Chinese Cultural Center in Cairo is bursting with both tour guides and businessmen looking to learn Chinese. The picture with Russia is similar. For years, Egypt's Red Sea resorts have been packed with sunburned Russians, now the second highest number of foreign visitors to the Sinai after Italians.

Internal/External Politics No Bar

¶6. (C) The fact that Russia and China will not pressure Egypt for internal political reform makes them more attractive targets for the Mubarak regime. Trade minister Rachid noted in a mid-September interview with the Financial Times that doing business with China is "easier" because it is not "linked to politics." Similarly, Russian and Chinese resistance to foreign pressure for their own internal reform also resonates in Cairo. Russia's recent implementation of a law enhancing state regulation of foreign NGOs, including IRI and NDI, both of which are facing registration difficulties in Egypt, was noted here. Given Chinese concerns about Xinjiang Uighur Islamist and Russian experiences on this issue, the potential rising influence of Islamists is another internal issue on which Egypt, Russia, and China agree. Cultural and educational exchanges between Egypt and China currently include religious exchanges. Differences between Egypt, Russia and China on foreign policy issues, such as how to address challenges posed by Iran and Hamas, do not appear to threaten broader cooperation. On a fundamental level, Egypt shares Russian and Chinese objections to sanctions.

Diversification Does Not Equal Zero Sum

¶7. (C) Egypt's move to expand its relationships with Russia and China bears watching, but is consistent with the GOE's stated interest in diversifying its foreign alliances, and pursuing opportunities for growth in trade, investment, the energy sector and tourism. While GOE officials may enjoy speculating on the potential impact of their Russian and China initiatives on relations with the U.S., they have been careful to note that the U.S. will continue to be a strategic and economic partner. Beyond the Russia/China dynamic, the question of where else Egypt may turn in its process of diversification also warrants monitoring. An October 22 report on Egypt's Minister of International Cooperation's meeting with the Head of Iran's interest section in Cairo

outlining a plan to enter a framework agreement to expand investment, trade, tourism, transport, media, cultural and scientific cooperation suggests that the feelers are out, including in places we might have least expected.

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